

PUBLIC DISCLOSURE

May 5, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Marathon Bank

05512729

Post Office Box 998

Stephens City, Virginia 22655

Federal Reserve Bank of Richmond

P. O. Box 27622

Richmond, Virginia 23261

This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each Federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Marathon Bank, Stephens City, Virginia, prepared by The Federal Reserve Bank of Richmond, the institution's supervisory agency, as of May 5, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

The bank's loan to deposit ratio is more than reasonable given the bank's financial capacity and location. A majority of loans sampled during the examination were extended to residents within the assessment areas. The institution's level of lending within the assessment area to borrowers of different incomes demonstrates an outstanding level of performance. The distribution of lending by income level of geographies in the assessment area meets standards for satisfactory performance. Because the geographies in each assessment area are relatively homogeneous, little weight was placed on this category. Investments and services were also considered in the performance rating. The bank has provided interest-free financing to the local chapter of Habitat for Humanity and maintains membership with the Warren County Housing Coalition.

The following table indicates the performance level of The Marathon Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>The Marathon Bank</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	No complaints have been received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Marathon Bank operates two offices within the City of Winchester, Virginia, with another branch located in the Town of Front Royal. Additional offices will be opened in Winchester, and Woodstock, by the third quarter of 1997. As of March 31, 1997, the bank had total assets of \$49.6 million, 78% of which were loans. The institution offers various loan and deposit products including residential mortgage, commercial, consumer and agricultural loans. The loan portfolio as of March 31, 1997 consisted of 38% real estate secured (consumer and business), 32% commercial and agricultural, and 30% consumer. Based on the number of loans originated in the last six months, loans secured by motor vehicles were identified as the principal loan product offered by the bank. The institution's previous CRA rating was outstanding.

DESCRIPTION OF ASSESSMENT AREAS

The bank has delineated two assessment areas. Warren County, Virginia, one assessment area, is part of the Washington, D. C. Metropolitan Statistical Area (MSA). The bank's other assessment area is comprised of the City of Winchester and Frederick Counties and is not included within an MSA. These areas are located in the northwest portion of the Commonwealth, approximately 70 miles west of Washington, D. C. According to the 1990 census data, Warren County has a population of 26,142 and consists of one unpopulated low-income census tract and seven moderate-income census tracts. The nonmetropolitan assessment area has a population of 67,670 and consists of ten low-income, six middle-income, and eight upper-income census tracts. The ten low-income tracts are unpopulated.

Both assessment areas are primarily rural. Employment is provided by various small manufacturing firms and agriculture. The major industries include poultry processing, printing, fruit canning, and manufacturing of automotive components and clothing. The area's proximity to urban communities has contributed to steady population growth as many residents commute to work in the areas around Washington, D. C. The unemployment rates for March 1997, in Warren and Frederick Counties and the City of Winchester were 4.8%, 3.5%, and 4.9%, respectively. The unemployment rate for the Commonwealth is 4%. The 1996 median-family incomes for nonmetropolitan areas within the Commonwealth of Virginia and the Washington, D. C. MSA are \$33,600 and \$68,300, respectively.

A member of a local housing organization was contacted during the examination to further assist in evaluating the bank's CRA performance. The contact indicated that additional affordable housing for low- and moderate-income residents of Warren County was needed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The average loan-to-deposit ratio for the previous six quarters is 88% and exceeds standards for satisfactory performance. The average loan-to-deposit ratios for comparable institutions located in metropolitan and nonmetropolitan areas of Virginia and of similar asset size to The Marathon Bank are 68% and 67%, respectively.

LENDING IN ASSESSMENT AREA

To determine the institution's volume of lending within the assessment area, a sample of 133 loans secured by motor vehicles extended during the previous six months was reviewed. The lending distribution is represented in the following table.

Comparison of Credit Extended Inside and Outside of Assessment Areas

	Inside Assessment Area	Outside Assessment Area	Total
Total Number of Loans	102	31	133
Percentage of Total Loans	77%	23%	100%
Total Amount of Loans (000s)	\$831	\$319	\$1,150
Percentage of Total Amount	72%	28%	100%

As illustrated above, a majority of loans sampled, in number and dollar amount, were provided to residents of the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES

The following charts illustrate the distribution of the sampled loans secured by motor vehicles to borrowers of different income levels within the assessment areas. The data are provided separately for the metropolitan and nonmetropolitan assessment areas.

Distribution of Loans by Income Level of Borrower - MSA

	Low-Income	Moderate-Income	Middle-Income	Total
Total Number of Loans	46	13	1	60
Percentage of Total Loans	77%	22%	1%	100%
Total Amount of Loans (000s)	\$358	\$161	\$1	\$520
Percentage of Total Loans	69%	30%	1%	100%

The volume of lending to low- and moderate-income residents (99%) substantially exceeds the proportion of such families 62% (33% low-income and 29% moderate-income) in the metropolitan assessment area.

Distribution of Loans by Income Level of Borrower - nonMSA

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	13	17	5	7	42
Percentage of Total Loans	31%	40%	12%	17%	100%
Total Amount of Loans (000s)	\$87	\$131	\$37	\$55	\$310
Percentage of Total Loans	28%	42%	12%	18%	100%

For purposes of comparison, the chart below depicts the distribution of nonmetropolitan assessment area families according to low-, moderate-, middle-, and upper-income levels.

Percentage of Families in Assessment Area by Income Level - nonMSA

	Low Inc.	Mod. Inc.	Mid. Inc.	Upper Inc.	Total
% of Population	11%	14%	23%	52%	100%

The percentage of loans to low- and moderate-income residents (71%) within the nonmetropolitan assessment area is also substantially greater than the representation of such families 25% residing in the area. Furthermore, a substantial majority of the dollar amount of loans extended in both assessment areas (99% and 70%) were made to low- and moderate-income borrowers. Given the demographics of the assessment areas, the distribution of lending demonstrates an excellent penetration among individuals of varying incomes.

GEOGRAPHIC DISTRIBUTION OF LOANS

The review of loan files also included an analysis of lending among various census tracts within the assessment area. As previously mentioned, all seven of the populated geographies within the metropolitan assessment area are considered moderate-income census tracts; therefore, 100% of the number and dollar amount of loans extended within this assessment area were within these geographies.

The following chart illustrates the distribution of the sampled loans secured by motor vehicles in the nonmetropolitan assessment area according to income level of the geographies. As previously mentioned, this assessment area contains no populated low-income census tracts and no moderate-income census tracts.

Distribution of Loans in Assessment Area by Income Level of Census Tract - nonMSA

	Middle-Income	Upper-Income	Total
Total Number of Loans	13	29	42
Percentage of Total Loans	31%	69%	100%
Total Amount of Loans (000s)	\$111	\$199	\$310
Percentage of Total Loans	36%	64%	100%

Within the nonmetropolitan assessment area, 31% and 69% of the loans sampled were extended in middle- and upper-income geographies, respectively. The percentage of lending in middle- and upper-income census tracts approximates the percentage of the market population (43% middle-income and 57% upper-income) residing in these areas. Given the local population residing in geographies of varying income levels, the geographic distribution of the sampled loans is considered reasonable.

INVESTMENTS AND SERVICES

The institution has developed a relationship with the local chapter of Habitat for Humanity by recently providing an interest-free construction loan (\$5,000) to the organization and by participating on its Board of Directors. The Marathon Bank is also a member of the Warren County Housing Coalition which provides technical and financial assistance to low-income residents of the area.

As a financial service provided to the community, the bank cashes Government checks free of charge. In addition, two programs at area elementary schools have been developed. Through these programs, students are educated about banking and can open and maintain a low-balance savings account. Furthermore, all three branches have Automated Teller Machines (ATMs) and maintain Saturday hours. One of these branches is located in a moderate-income area.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS AND REGULATIONS

The bank is in compliance with the substantive provisions of the fair lending and fair housing laws and regulations. Technical violations of the Equal Credit Opportunity Act's Regulation B and Home Mortgage Disclosure Act's Regulation C were noted. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.